

CITY OF SPOKANE
Spokane County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. Public Funds Were Misappropriated And Accounting Records Were Falsified

In December 1993, city officials notified us of an apparent misappropriation of public funds from cash receipts at the Waste to Energy (WTE) facility. As a result, the city's internal auditor conducted an investigation to determine the amount of the loss.

Our audit of the financial records of the City of Spokane Solid Waste Department revealed that at least \$3,130 in public funds was misappropriated by Ms. Marlee Ross, a cashier at the WTE facility, during the period August 1993 through December 1993. Accounting records were falsified in an attempt to conceal these losses. During our audit, we reviewed the work performed by the city and agree with their findings and conclusions. There were no federal funds involved in this case. These funds were misappropriated as described below.

Ms. Ross stole money she received from customers making garbage fee payments at the WTE facility. During the cash receipting process, she first asked customers who made their payments in cash whether they needed a receipt for the transaction. If a receipt was not required, she collected the full garbage fee from the customer, but changed the type of transaction being processed in the cash receipting system from "regular" to "compost." This action changed the amount due from the customer from "full fee" to "no fee," and allowed the cashier to steal the amount of money that had been collected from the customer on the transaction.

Ms. Marlee Ross was a cashier at the WTE facility during the period of this loss. In this capacity, she had total control over cash receipting operations during her shift at the facility. On January 3, 1994, she admitted to city officials that she had misappropriated funds during the period of her employment at the WTE facility. She subsequently made full restitution to the city for the amount of this loss. Her employment with the city was terminated on January 5, 1994. This case has been reported to the Spokane County Prosecuting Attorney and is awaiting disposition.

RCW 42.20.070 states:

Every public officer, and every other person receiving money on behalf of or for or on account of the . . . city . . . who

(1) Shall appropriate to his own use or the use of any person not entitled thereto, without authority of law, any money so received by him as such officer or otherwise; or

(2) Shall knowingly keep any false account, or make any false entry or erasure in any account of or relating to any money so received by him;

or

(3) Shall fraudulently alter, falsify, conceal, or destroy or obliterate any such account; or

(4) Shall wilfully omit or refuse to pay over to the . . . proper officer or authority empowered to demand and receive the same, any money received by him or her as such officer when it is a duty imposed upon him or her by law to pay over and account for the same, shall be punished by imprisonment in a state correctional facility for not more than fifteen years.

The following internal control weaknesses allowed this misappropriation of public funds to occur and not be detected in a timely manner.

- a. The city has authorized several types of no fee or reduced fee dumps for compost material, but processes these transactions through the same weigh stations used for full fee dumps.
- b. Cashiers did not always record the mode of payment for each cash receipt transaction accurately. This prevented supervisors from determining whether the composition of the daily bank deposit was accurate.
- c. When two cashiers are assigned at a weigh station, both cashiers use the same cash drawer. Under these circumstances, it is not possible for anyone to fix responsibility to a single individual for a loss of funds which occurs during normal operations.
- d. Weigh station cashiers often work alone.

We recommend the Washington State Office of the Attorney General and the Spokane County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and the State Auditor as directed by RCW 43.09.260.

We further recommend the city:

- a. Review overall accounting controls at the WTE facility, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.
- b. Reassess the practicality of free and reduced fee dumping at Solid Waste Department facilities.

2. The City Should Comply With Bid Laws

The city improperly declared an emergency when it awarded two contracts for street resurfacing. The contract award prices were \$201,750 and \$267,661. Both contracts were awarded to the same contractor.

The city awarded the contracts after cancelling an earlier \$644,814 contract with the same contractor. The City followed appropriate bid procedures for the original contract. Due to complaints by area businesses, the city cancelled the contract. Subsequently, by resolution, the city council declared an emergency and awarded the two smaller contracts to the original contractor.

The resolution declaring an emergency (RES 93-74) indicates the declaration of emergency is based on the following factors: (1) the City had several other paving projects to replace the cancelled project; (2) "the City has a duty to spend the bond issue funds in an expeditiously as possible manner to improve" street conditions; (3) following competitive bidding requirements would result in "insufficient time for contractors to complete the work this year"; and (4) the original contractor was ready to perform paving work, had relied on the original contract, and city staff felt "it is fair to award alternate work" to the contractor.

RCW 35.22.620, Public works or improvements - Limitations on work by public employees - Small works roster - Purchase of reused or recycled materials or products, states in part:

(2) A first class city may have public works performed by contract pursuant to public notice and call for competitive bids . . .

(3) . . . shall not have public employees perform a public works project in excess of fifty thousand dollars if more than a single craft or trade is involved with the public works project, or a public works project in excess of twenty-five thousand dollars if a single craft or trade is involved with the public works project

An exception to the bidding requirements referenced in RCW 35.22.620(6) made when

. . . When any emergency shall require the immediate execution of such public work (Emphasis added.)

There is a strong public policy in Washington favoring competitive bidding laws. Under RCW 35.22.620(6), an emergency constituting an exception to competitive bidding must "require the immediate execution" of the public work. The city's resolution declaring an emergency does not establish facts which "require the immediate execution" of the substitute paving projects. Rather, the resolution indicates the "emergency" was based on feelings of fairness and a desire to complete the substitute repaving projects during the 1993 construction season. The resolution did not provide why the work had to be completed during that time frame so as to require dispensing with the competitive bidding process.

Competitive bid procedures provide some assurance of the lowest possible costs to the city and show a fairness on the part of the city toward capable contractors. By declaring an emergency to avoid the bid process without showing that execution of the work was required immediately, the city showed preferential treatment to the particular contractor and may not have obtained the lowest possible cost for the work.

The city's management were not aware that they incorrectly declared an emergency to award these contracts.

We recommend the city adhere to the statutory bid procedures.

3. City Utilities Should Bill For Services Provided To Other City Departments

The Solid Waste Fund and the Sewer Fund failed to bill each other for services provided. Solid Waste allows the Sewer Fund to dispose of solid waste at no charge. Sewer, in return, allows Solid Waste to pump waste water into the sewer system at no charge. The city was unable to determine the fair market value of these services.

RCW 43.09.210 states in part:

All service rendered by . . . one department . . . shall be paid for at its true and full value by the department . . . receiving the same, and no department . . . shall benefit in any financial manner whatever by any appropriation or fund for the support of another.

It is unlikely that the services provided by these funds to each other would have been equal. Accordingly, one of these funds benefited at the cost of the other.

Management failed to comply with the legal requirements of public fund operations.

We recommend services provided by city utilities be billed to and paid for by benefiting departments.

4. Controls Over The Electronic Funds Transfer Of Payroll Need To Be Strengthened

The controls over the city's procedure for transferring cash for its direct deposit payroll to its clearing house bank should be strengthened. The city transfers its direct payroll cash by electronic transfer. The procedure is done within the city's Management Information System (MIS) Department. Data for a funds transfer is first downloaded from the city's main computer to a PC within MIS. The interim transfer file is retained in the PC until the transfer to US Bank. During this time, both computer operators and programmers have access to the PC. A knowledgeable person could write and run a program, or even directly edit this file, to redefine the distribution of the payroll dollars to other accounts. We consider this to be a material weakness.

A person altering the interim transfer file could potentially shift all but small nominal amounts to their own account.

This interim transfer file is outside the normal payroll control environment while residing in the PC. Edit controls on the transfer process are not thorough enough to detect potential manipulation in the account distribution process.

We recommend that additional edit controls be added to both the download routine (from the main payroll system to the PC file) and the electronic transfer (from the PC to the clearinghouse bank) to halt either of these processes if the amount being distributed to any single account exceeds a preset dollar limit.

We further recommend the city ask its bank to transmit back a list of accounts and amounts transferred.

CITY OF SPOKANE
Spokane County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Federal Findings

1. The City's Community Development Department Should Issue Timely Reports

The Grantee Performance Report (GPR) for the Community Development Block Grant (CFDA 14.218) for the year ended June 30, 1993 was due September 30, 1993. The GPR was not filed until November 24, 1993. This condition was reported as a finding in our 1992 audit report.

24 CFR 570.507(a)(2)(i)(A) states that grant recipients are to submit the GPR no later than 90 days after the completion of the most recent program year showing the status of all activities as of the end of the program year.

Failure to comply with this reporting requirement could jeopardize the city's ability to obtain future grant funding.

In response to the finding in our 1992 audit report, the city said it would commit additional staff resources to complete the report on time. However, such additional resources were not committed, resulting in a late report.

We again recommend the city take actions to improve the timeliness of its reporting.